# The White Pass and Yukon Corporation Limited
# Annual Report 1978

## DIRECTORS

John F. Fraser, *Winnipeg, Manitoba*
Rupert N. Hambro, *London, England*
Richard A. Hubber-Richard, *Vancouver, B.C.*
Augustus S. Leach, Jr., *Winnipeg, Manitoba*
J. Derek Riley, *Winnipeg, Manitoba*
John D. Scott, *Whitehorse, Yukon*
Stewart A. Searle, *Winnipeg, Manitoba*

## OFFICERS

Richard A. Hubber-Richard, *Chairman of the Board*
John F. Fraser, *President and Chief Executive Officer*
Thomas H. King, *Executive Vice-President and General Manager*
Amjad Ali, *Vice-President Administration*
John S. Pelton, *Vice-President Finance*
William D. Davie, *Secretary*
Henry Stubnitzer, *Treasurer*

## HEAD OFFICE

2400 - One Lombard Place
Winnipeg, Manitoba
R3B 0X3

## OPERATIONS HEADQUARTERS

P.O. Box 4070
Whitehorse, Yukon
Y1A 3T1

## REGISTRAR AND TRANSFER AGENT

The Royal Trust Company
Vancouver, Calgary,
Toronto, Montreal

## 1978 RESULTS

For the twelve months ended December 31, 1978, the Company incurred a net loss of $963,000 which, after providing for preferred dividends, resulted in a loss of 71¢ per common share, compared to a net gain of $1,476,000, or 58¢ per common share, for 1977.

Excluding an extraordinary loss of $319,000, the loss from continuing operations was $644,000, or 54¢ per common share for 1978.

Revenue from continuing operations was $70,141,000 for 1978, compared to $66,530,000 in 1977.

## OPERATIONS REVIEW

1978 was a period of transition and adjustment for the Company, with significant changes to management and operations. An assessment of the prospects of the Company led to the conclusion that a major restructuring was necessary to meet a changing and challenging economic environment.

The loss of a major customer, Cassiar Asbestos, caused an imbalance in freight flows by virtually eliminating the southbound ocean tonnage and reducing rail revenues. The realignment of rates, personnel and assets required to compensate is substantial and will take some months to accomplish.

One aspect of the Company's operation has received a great deal of publicity: the railway between Whitehorse and Skagway and the Company's attempt to acquire government participation in supporting this important element of the Yukon's transportation infrastructure. We are disappointed at the absence of a positive response from the Federal government to a situation which could cause a serious bottleneck in the economic development of the Yukon.

Rising labour and material costs of operating the Company's ships as manned vessels resulted in a decision to convert the vessels to barge configuration and to contract for tug towing services. The conversion was completed in early 1979, with indicated annual operational savings in excess of $1 million.

In August, major changes were made to the senior operating management of the Company, and headquarters transferred to Whitehorse. The Vancouver administrative offices were reduced to a nominal status, and reductions in overhead aggregating an annualized $2 million were achieved. Decisions were made to close two unprofitable subsidiaries, and the relating assets are being liquidated. Critical evaluations of all services provided by the Company are proceeding, with the result that certain unprofitable freight services have been discontinued and all rates adjusted to reflect actual operating costs.

Attainment of the beneficial financial results represented by these actions has not been without short term costs. Nonrecurring charges in excess of $1 million were recorded against the Company's earnings, and more such expenses are anticipated in 1979 as the operations are brought into balance.

Major capital expenditures of over $4.7 million were undertaken during the period, primarily to provide a more efficient form of haulage for mineral concentrate of our largest customer, Cyprus Anvil. Of the total amount, $2.2 million represented capitalized lease obligations relating to truck power units and containers. Depreciation rose 14% to $3.7 million, reflecting the additions to fixed assets.

Further, the Company invested or committed approximately $1.5 million to secure the services of a tug to tow its converted ship-barges. Working capital of the Company decreased by approximately $2.2 million in the period due to operating losses, capital expenditures in excess of depreciation provided, and the inclusion in the financial statements for the first time of capitalized lease obligations. Further, current bank debt was increased by approximately $1 million on the purchase by the Company of debt obligations of the tug owner. This amount is offset by a mortgage receivable and will be converted into long term debt during 1979. The Company has negotiated recently an agreement with its bankers to convert $3 million U.S. from current to 12-year debt, thereby freeing substantial working capital for operational purposes.

## OUTLOOK FOR 1979

The short and medium term difficulties facing the Company are extensive and a return to acceptable levels of profitability will require time and effort. Although attainment of net profitability by the Company in 1979 is unlikely, the trend of results of operations by year-end should be strongly positive.

The current turn around strategy is based on four major thrusts. First, the Company will continue the program of reducing costs and increasing productivity; second, implement further new pricing policies which will realign freight rates and product prices more closely to current costs; third, introduce an aggressive plan to improve service and strengthen operational management and, last, develop new policies to foster more acceptable labour/management relations.

Whether the White Pass and Yukon Railway can become commercially viable in the long run is the major issue facing this Company. In the short term, cost cuts already implemented, combined with rate increases, will reduce the size of current losses. We believe the long term solution will require either financial assistance from the Federal Government or an orderly wind down with existing traffic being transferred to the recently constructed highway running parallel to the railway. The Company's commitment to and expertise in truck transportation assure that such a transition would be practical, providing for improved service, lower freight rates in the future and an acceptable level of earnings.

The present, but temporary, pause in the economic development of the Yukon is providing the new management team the much-needed time to implement the corrective measures and bolster operational management. This important rebuilding program will enable the Company to take maximum advantage of substantial increases in freight volumes and product sales that will accompany the construction of the gas pipeline.

On behalf of the Board of Directors,

R.A. Hubber-Richard.

RICHARD A. HUBBER-RICHARD
*Chairman of the Board*

J.F. Fraser

JOHN F. FRASER
*President and Chief Executive Officer*

May 31, 1979

# Consolidated Balance Sheet
**as at December 31, 1978**

| | $000 | |
|---|---|---|
| *ASSETS* | *1978* | *1977* |
| Current | | |
| Cash and short term deposits | $ 78 | $ 2,488 |
| Accounts receivable | 6,756 | 8,059 |
| Income taxes recoverable | 563 | – |
| Inventories | 10,013 | 9,180 |
| Prepaid expenses | 664 | 580 |
| Due from parent company (Note 2) | 2,778 | – |
| | 20,852 | 20,307 |
| Mortgages and agreements receivable (Note 3) | 1,359 | 317 |
| Fixed | | |
| Property and equipment | 69,906 | 67,245 |
| Less accumulated depreciation | 30,280 | 28,065 |
| | 39,626 | 39,180 |
| Other | – | 7 |
| | $61,837 | $59,811 |

See accompanying notes to financial statements.

On behalf of the Board

R.A. Hebb Richard.
Director

Director

# The White Pass and Yukon Corporation Limited

***(Continued under the Canada Business Corporations Act)***

| | $000 | |
|---|---|---|
| ***LIABILITIES*** | ***1978*** | ***1977*** |
| Current | | |
| Bank indebtedness, secured | $ 9,642 | $ 6,949 |
| Accounts payable and accrued charges | 10,883 | 9,433 |
| Income taxes payable | – | 580 |
| Current portion of long-term debt | 644 | 1,436 |
| | 21,169 | 18,398 |
| Long-term debt (Note 4) | 3,500 | 1,969 |
| Deferred income taxes | 5,304 | 5,346 |
| ***SHAREHOLDERS' EQUITY*** | | |
| Capital stock (Note 5) | | |
| Authorized | | |
| 500,000 cumulative, redeemable, preferred shares with a par value of $25 each, issuable in series | | |
| 12,000,000 common shares, without par value | | |
| Issued and fully paid | | |
| 220,000 6¾% preferred shares, Series A | 5,500 | 5,500 |
| 1,891,516 common shares | 4,783 | 4,783 |
| Surplus resulting from consolidation (Note 6) | 6,598 | 6,598 |
| Retained earnings | 14,983 | 17,217 |
| | 31,864 | 34,098 |
| | $61,837 | $59,811 |

# Consolidated Statement of Earnings

***for the year ended December 31, 1978***

| | $000 | |
|---|---|---|
| | *1978* | *1977* (Restated Note 7) |
| Revenue | | |
| Petroleum | $30,667 | $26,583 |
| Transportation | 39,385 | 39,472 |
| Other | 89 | 475 |
| | 70,141 | 66,530 |
| Deduct | | |
| Cost of sales and operating expenses | 65,974 | 60,272 |
| Depreciation | 3,652 | 3,216 |
| Interest on long-term debt | 413 | 292 |
| Loss (gain) on disposal of fixed assets | 131 | (88) |
| Unrealized foreign exchange loss | 554 | 299 |
| | 70,724 | 63,991 |
| (Loss) earnings from continuing operations | (583) | 2,539 |
| Loss from discontinued operations (Note 7) | (416) | (103) |
| (Loss) earnings before income taxes and extraordinary items | (999) | 2,436 |
| Income taxes—current (recovered) | (168) | 998 |
| —deferred (recovered) | (187) | (38) |
| | (355) | 960 |
| (Loss) earnings before extraordinary items | (644) | 1,476 |
| Extraordinary items | | |
| Provisions for costs and losses related to the discontinuance of a subsidiary company (Note 7) | 441 | – |
| Reduction in income taxes through the realization of losses carried forward | (122) | – |
| | 319 | – |
| Net (loss) earnings for the year | ($ 963) | $ 1,476 |
| Net (loss) earnings per common share | | |
| Before extraordinary items | ($ 0.54) | $ 0.58 |
| Extraordinary items | ($ 0.17) | $ – |
| Including extraordinary items | ($ 0.71) | $ 0.58 |

See accompanying notes to financial statements.

# Consolidated Statement of Retained Earnings

***for the year ended December 31, 1978***

| | $000 | |
|---|---|---|
| | *1978* | *1977* |
| Balance at beginning of year | $17,217 | $16,112 |
| Net (loss) earnings for the year | (963) | 1,476 |
| | 16,254 | 17,588 |
| Dividends paid | | |
| Preferred | 371 | 371 |
| Common | 900 | – |
| | 1,271 | 371 |
| Balance at end of year | $14,983 | $17,217 |

See accompanying notes to financial statements.

## *AUDITORS' REPORT*

The Shareholders,
The White Pass and Yukon
Corporation Limited.

We have examined the consolidated balance sheet of The White Pass and Yukon Corporation Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.,
March 2, 1979.

Touche Ross & Co

Chartered Accountants

# Consolidated Statement of Changes in Financial Position

***for the year ended December 31, 1978***

| | $000 1978 | $000 1977 |
|---|---|---|
| Funds were provided by | | |
| Net (loss) earnings for the year | $ (963) | $1,476 |
| Charges to earnings not resulting in an outlay of working capital | | |
| Depreciation | 3,715 | 3,263 |
| Loss (gain) on disposal of fixed assets | 143 | (88) |
| Deferred income taxes | (42) | (38) |
| Other | 7 | 7 |
| Funds from operations | 2,860 | 4,620 |
| Increase in long-term debt | 1,531 | – |
| Disposal of fixed assets | 461 | 376 |
| Mortgages and agreements receivable | – | 103 |
| Other | – | 10 |
| Total funds provided | 4,852 | 5,109 |
| Funds were used for | | |
| Mortgages and agreements receivable | 1,042 | 43 |
| Additions to fixed assets | 4,765 | 4,183 |
| Reduction of long-term debt | – | 1,436 |
| Dividends paid | 1,271 | 371 |
| Total funds used | 7,078 | 6,033 |
| Decrease in working capital | 2,226 | 924 |
| Working capital at beginning of year | 1,909 | 2,833 |
| Working capital (deficiency) at end of year | ($ 317) | $1,909 |

See accompanying notes to financial statements.

## 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Principles of consolidation

The consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries as follows:

British Columbia-Yukon Railway Company
The British Yukon Navigation Company, Limited
British Yukon Ocean Services Ltd.
The British Yukon Railway Company
Loiselle Transport Limited
Pacific and Arctic Motors Ltd.
Pacific and Arctic Pipelines Incorporated
Pacific and Arctic Railway and Navigation Company
Pioneer Alaska Express, Inc.
Skagway Terminal Company
Yukon Pipelines Limited

All significant inter-company transactions have been eliminated.

The accounts of certain subsidiaries are maintained in United States dollars, which have been translated into Canadian dollars as follows:

Current assets and current liabilities at exchange rates prevailing at the end of the year;

Fixed assets, depreciation provisions and long-term debt substantially on the basis of rates prevailing at date of acquisition;

Income and expenses (other than depreciation provisions) on the basis of average exchange rates during the year;

Exchange gains and losses from such translation practices have been included in earnings.

### b. Fixed assets.

Fixed assets are recorded at cost. All equipment leases of a capital nature entered into during the year have been recorded as fixed asset acquisitions and long-term debt obligations. Depreciation is determined at rates which amortize the cost of the assets over their estimated useful lives on the straight-line, declining balance or volume of use method, whichever is appropriate in the circumstances under which the assets are employed. Gains and losses on disposal of highway equipment and real property are included in earnings.

### c. Income taxes

The Company follows the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes relating to reported earnings exclusive of non-taxable revenue and expense items.

Potential tax reductions that may result from the application of losses against future taxable income are not recognized until such future taxable income is earned.

### d. Inventories

Inventories of bulk petroleum products are valued at the lower of cost applied on a "first-in, first-out" basis and market determined at net realizable value; inventories of other products and materials and supplies are valued at the lower of average cost and net realizable value or replacement cost.

## 2—DUE FROM PARENT COMPANY

Advances to the parent company have no stated terms of repayment and bear interest at a rate equal to the cost of short-term funds.

## 3—MORTGAGES AND AGREEMENTS RECEIVABLE

**a.** As at December 31, 1978, the Company has advanced $950,000 and is committed to advance an additional amount of approximately $500,000 against a $1,800,000 first mortgage. The mortgage is secured by an operating asset which is under contract to the Company. The mortgage bears interest at 12% per annum and is repayable over 102 consecutive equal monthly installments commencing April, 1979.

**b.** As at December 31, 1978, the Company has loaned $146,500 to an officer of the Company for the purpose of acquiring a residence. The loan is non-interest bearing and is repayable at $500 per month commencing January, 1979.

## 4—LONG-TERM DEBT

| | $000 | |
|---|---|---|
| | 1978 | 1977 |
| Capitalized equipment leases at various rates of interest for 3 to 10 years with aggregate repayments in 1979 of $303,000 | $2,174 | $ – |
| 8½% first-ship mortgage note with annual principal repayments of $200,000 to 1980 and $325,000 to 1984 | 1,700 | 1,900 |
| 6⅛% first-ship mortgage note with annual principal repayments of $120,000 to 1980 | 240 | 360 |
| 11¼% real property mortgage with annual principal repayments of $21,000 | 30 | 50 |
| 5½% unsecured loan stock | – | 1,095 |
| Total long-term debt | 4,144 | 3,405 |
| Less current portion | 644 | 1,436 |
| | $3,500 | $1,969 |

The estimated amounts for retirement of the long-term debt over the next five years are as follows:

| | $000 |
|---|---|
| 1979 | $644 |
| 1980 | 672 |
| 1981 | 576 |
| 1982 | 558 |
| 1983 | 576 |

## 5—CAPITAL STOCK

During the year the Company increased its authorized common shares to 12,000,000 shares without par value by creation of 9,500,000 additional shares without par value.

The preferred shares are redeemable by the Company out of capital or otherwise, at such redemption prices as may be provided in the conditions attaching to such shares. The preferred shares Series A are redeemable at $25.75 per share prior to December 1, 1980 and $25.25 thereafter.

## 6—SURPLUS RESULTING FROM CONSOLIDATION

The surplus resulting from consolidation represents the excess of net book value of subsidiaries at the date of acquisition over cost to the Company.

## 7—DISCONTINUED OPERATIONS

Effective November 18, 1978, Pioneer Alaska Express, Inc. ceased operations and, subject to regulatory approval, sold its operating authority.

In February 1979, management decided to discontinue operations of wholly-owned subsidiary, Pacific and Arctic Motors Ltd. A provision for anticipated costs and losses on discontinuance has been reflected in the consolidated financial statements as an extraordinary item, net of taxes of $139,000.

For comparative purposes, figures for the years ended December 31, 1978 and December 31, 1977 relating to discontinued operations have been eliminated from revenue, cost of sales and operating expenses, depreciation, etc., and the results of these operations have been shown as a separate item of earnings under the caption "Loss from discontinued operations".

## 8—INCOME TAXES

The Company and its subsidiaries are subject to tax on an individual, rather than a consolidated basis. The recovery or provision of income taxes are related to losses and earnings of certain subsidiaries. Other subsidiaries have incurred losses against which future income tax recoveries have not been recognized in the accounts. The effective tax recovery rate excluding these specific subsidiary companies is 43% compared to the 36% rate reflected in these consolidated financial statements.

## 9—NET (LOSS) EARNINGS PER COMMON SHARE

Net (loss) earnings per common share have been computed by dividing the net (loss) earnings after deduction of preferred share dividends by the number of common shares outstanding during the year.

## 10—REMUNERATION OF DIRECTORS AND OFFICERS

| | Number | | Amount | |
|---|---|---|---|---|
| | 1978 | 1977 | 1978 | 1977 |
| As directors | 7 | 8 | $ 13,000 | $ 10,000 |
| As officers | 4 | 9 | $280,000 | $304,000 |
| Officers who are also directors | 3 | 3 | | |

The aggregate remuneration in 1978 includes amounts paid to both past and present officers.

## 11—COMMITMENTS

The Company is committed to non-capitalized lease agreements of varying terms up to 46 years with annual lease obligations over the next 5 years of approximately $266,000.

## 12—SEGMENT INCOME INFORMATION

| | $000 | |
|---|---|---|
| | Revenue | Segment margin |
| Petroleum | $31,704 | $2,769 |
| Transportation | 43,155 | 2,035 |
| | 74,859 | 4,804 |
| Inter-segment transactions | 4,718 | 284 |
| | $70,141 | 4,520 |
| Common costs | | 5,103 |
| Loss from continuing operations | | 583 |
| Loss from discontinued operations | | 416 |
| Income taxes | | (355) |
| Extraordinary items | | 319 |
| Net loss for the year | | $ 963 |

*a.* The Company has segmented its continuing operating data on the basis of the major industries in which the Company operates.

*b.* Common costs include indirect administrative expenses, interest on long-term debt and loss on disposal of fixed assets.